



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE RUSTENBURG LOCAL MUNICIPALITY

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying consolidated financial statements of the Rustenburg Local Municipality, which comprise statement of financial position as at 30 June 2010, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, and the accounting officer's report, as set out on pages [XX] to [XX].

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for qualified opinion

Property, plant and equipment

7. I was unable to obtain sufficient appropriate audit evidence that the municipality reviewed the useful life and the residual value of property, plant and equipment of R1 295 274 328, as required by Standard of Generally Recognised Accounting Practice, GRAP 17, *Property, Plant and Equipment*. The municipality's records did not permit the performance of alternative audit procedures. Consequently I am unable to conclude on the accuracy and valuation and allocation of property, plant and equipment of R1 295 274 328 as disclosed in note 9 to the financial statements. (2009: R1 157 215 049).
8. I was unable to obtain sufficient appropriate audit evidence that the municipality at the end of the reporting period assessed whether there is any indication that assets of R1 295 274 328, may be impaired as required by Statements of Generally Accepted Accounting Practice, IAS 36 – *Impairment of Assets*. The municipality's records did not permit the performance of alternative audit procedures. Consequently I am unable to conclude on the accuracy and valuation and allocation of property, plant and equipment of R1 295 274 328 as disclosed in note 9 to the financial statements. (2009: R1 157 215 049).
9. I was unable to obtain sufficient appropriate audit evidence that the municipality componentised infrastructure assets of R921 325 628. Standard of Generally Recognised Accounting Practice, GRAP 17, *Property, Plant and Equipment* require that each part of an item of property, plant and equipment with a significant cost relative to the item be depreciated separately. As a result, I was unable to verify depreciation of infrastructure assets of R64 550 654. The municipality's records did not permit the performance of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation and allocation of infrastructure assets of R921 325 628 as disclosed in note 9 to the financial statements. (2009: Infrastructure assets of R772 769 333 and depreciation of R43 738 223 were similarly reported).
10. Land and buildings of R84 736 175, as disclosed in note 9 to the financial statements, have been incorrectly classified as infrastructure assets resulting in the understatement of land and buildings and the overstatement of infrastructure assets by R84 736 175. (2009: R43 295 840).
11. I was unable to obtain title deeds for land and buildings of R61 216 872. The municipality's records did not permit the performance of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to verify the rights and obligations, valuation and allocation and the completeness of land and buildings as disclosed in note 9 to the financial statements. (2009: R20 995 840).

Revenue

12. I was unable to obtain sufficient appropriate audit evidence for metered service charges of R20 757 686 included in revenue, as this revenue has been raised using estimates for the financial year. Consequently I was unable to determine the accuracy and completeness and occurrence of metered service charges of R197 333 176 as disclosed in note 18 to the financial statements as well as the completeness, existence and valuation and allocation of consumer debtors of R1 182 915 163 as disclosed in note 13 to the financial statements.

Qualified opinion

13. In my opinion, except for the effects of the matters described in the basis of qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Rustenburg Local Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended, in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.



Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

14. As disclosed in note 27 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of a correction made by the municipality during the year ended 30 June 2010.

Unauthorised, irregular and fruitless and wasteful expenditure

15. As disclosed in note 31.1 to the financial statements, unauthorised expenditure of R 17 674 469 was incurred, mainly on bulk purchases and contracted services.
16. As disclosed in note 31.3 to the financial statements, irregular expenditure of R14 114 807 was incurred due to payments made in contravention of the supply chain management regulations and section 116(3)(a) of the MFMA.

Additional matter

I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

17. The supplementary information set out on pages [XX] to [XX] does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

18. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and their regulations and financial management (internal control):

- MFMA
- DoRA
- Local Government: Municipal Systems Act, 2000 (Act no. 32 of 2000) (MSA)
- Municipal Structures Act, 1998 (Act no.117 of 1998)

Predetermined objectives

19. Material findings on the report on predetermined objectives, as set out on pages [XX] to [XX], are reported below:

Non-compliance with regulatory requirements

Mid-year budget and performance assessments

20. Contrary to section 72(1)(a)(ii) and (iii) of the MFMA, the accounting officer failed to include problems identified in the previous financial year's annual report and progress on resolving the issues in the mid-term budget and performance assessment report.

Annual performance report

21. Contrary to section 46(c) of the MSA, the accounting officer failed to include the performance of external service providers in the annual performance report.



Duties of parent municipalities with respect to municipal entities

22. Contrary to section 93B of the MSA, the council did not monitor and review the predetermined objectives of the municipal entity (Rustenburg Water Services Trust (RWST)).

No indication of available resources per key performance indicator

23. Contrary to regulation 12(2) of the Municipal Planning and Performance Management Regulations, 2001, the service delivery and budget implementation plan (SDBIP) failed to include an indication of available resources for performance targets per key performance indicator.

Timeliness of reported performance information

24. Contrary to the requirements of section 127 (1) (a) of the MFMA, the municipal entity did not submit the report on pre-determined objectives within two months after the end of the financial year to the Auditor General for audit

Presentation of reported performance information

25. Contrary to section 88 of the MFMA, the accounting officer failed to provide evidence relating to the assessment of the performance of the entity during the first half of the financial year taking into account:
- The monthly statements referred to in section 87 of the MFMA and the targets set in the service delivery business plan or other agreement with the entity's parent municipality.
 - The entity's annual report for the past year and progress on resolving problems identified in the annual report.

Key performance indicators omitted in performance agreement with municipality

26. The agreement between Rustenburg Local Municipality and the Rustenburg Water Services Trust (RWST) do not include key performance indicators for the monitoring and review of the municipal entity, (RWST) as required by regulation 9(2) of the Municipal Planning and Performance Management Regulations, 2001.

Usefulness of reported performance information

27. The following criteria were used to assess the usefulness of the planned and reported performance:
- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
 - Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
 - Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit finding relate to the above criteria:

Reported information not consistent with planned objectives, indicators and targets

28. For the selected objectives, 25% of targets identified in the SDBIP did not correspond to the targets reported in the annual performance report. Furthermore, no evidence was provided to conclude whether these changes in targets were approved.

Corroborating evidence does not agree with reported explanations for major variances between planned and actual reported targets

29. Adequate explanations for major variances between the planned and the actual reported targets were not reported as required in terms of the relevant reporting guidance. 47% of the reported targets had no explanations for these variances.

No entity performance assessment prepared by the accounting officer

30. The Rustenburg Water Service Trust did not prepare and include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set, in terms of the service delivery agreement and its parent municipality, as required by section 121(4)(d) of the MFMA.

Reliability of reported performance information

31. The following criteria were used to assess the usefulness of the planned and reported performance:
- Validity: Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
 - Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
 - Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

No reporting against pre-determined objectives, indicators and targets

32. For the selected objectives, 25% of targets identified in the IDP and SDBIP were not reported on in the annual performance report.

No annual performance report prepared

33. Contrary to the requirements of section 127 (1) (a) of the MFMA, the municipal entity did not submit the report on pre-determined objectives within two months after the end of the financial year to the Auditor General for audit.

Compliance with laws and regulations

Municipal Finance Management Act, 2003

Expenditure was not paid within the parameters set by the applicable legislation

34. Contrary to section 65(1) and (2), the accounting officer failed to ensure that all money owing by the municipality is paid within 30 days of receipt of invoice.

The audit committee was not functioning properly

35. Contrary to section 166(4)(b), the audit committee of the municipality did not meet at least four times a year.

Non-submission of 2008/09 annual report to the municipality

36. Contrary to section 127(1)(d), the municipal entity did not submit an annual report for 2008/2009 to the municipal manager of Rustenburg Local Municipality within 6 months after the end of the 2008/2009 financial year as required by section 127(1).

No assessment of the performance of the municipal entity

37. Contrary to section 88, the accounting officer of the municipal entity has not by 20 January 2010 made an assessment of the performance of the trust.

No budget or multi-year business plan submitted

38. Contrary to section 87(5)(d)(i), the municipal entity failed to submit a budget together with a multi-year business plan.

Municipal Systems Act, 2000

Supply chain management legislative requirements were not adhered to (not resulting in irregular expenditure)

39. Contrary to paragraph 7 of schedule 1 of the MSA, annual declarations of interest were not made by the executive mayor and certain councillors.

Internal control

40. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with laws and regulations, but not for the purposes of expressing an opinion on the effectiveness of internal control.
41. The matters reported below are limited to the significant deficiencies regarding the basis for qualified opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

Management does not exercise oversight responsibility over financial and performance reporting and compliance with applicable laws and regulations. An effective organisational structure for placing appropriately skilled people is not in place as a high vacancy rate still exists at the municipality.

- **Financial and performance management**

Procedures pertaining to property, plant and equipment valuation and classification have not been performed, while supply chain management is not fully effective. Requested information is not always available or supplied without delay.

- **Governance**

Proper governance structures are not in place and not functioning effectively as ongoing monitoring and supervision by internal audit is not undertaken to enable an assessment of the effectiveness of internal control over financial and performance reporting. The audit committee did not fulfil its responsibilities as set out in legislation and in accordance with accepted best practice.

OTHER REPORTS

Investigations

42. An investigation was initiated following allegations of possible misappropriation of monies by a municipal employee. The investigation resulted in criminal proceedings being instituted against the employee. Proceedings are ongoing.
43. An investigation pertaining to cash shortages identified on pre-paid electricity sales was conducted. The municipality has reported the case to the South African Police Services for further investigation, which was still ongoing at the reporting date.
44. An investigation based on allegations of infringements of procurement procedures by the suspended chief financial officer was still ongoing at the reporting date.

45. An investigation based on allegations that the technical services director had not adhered to supply chain procedures relating to tender specifications, price variations and the subsequent awarding of the tender for the upgrading of soccer stadiums was still ongoing at the reporting date.
46. An investigation relating to alleged misappropriation of funds involving the suspended head of revenue, a traffic department cashier and a rates and taxes cashier was still ongoing at the reporting date.

Auditor-General.

Rustenburg

30 December 2010



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